

RENEWAL COMMUNITY TAX INCENTIVES

In February of 2002, Milwaukee was selected by the U.S. Department of Housing and Urban Development (HUD) as one of 40 communities nationwide as a Renewal Community. Milwaukee is a targeted community receiving tax incentives to spur economic development and job growth. Milwaukee's Renewal Community spans an area of more than 120,000 residents and the designation will last through December 31, 2009. Unlike some Federal tax incentives, these incentives are easy to use; only one involves an application and selection process.

Name: *Renewal Community Wage Credit*

Target User: Businesses with employees that live and work within the Renewal Community boundaries.

Summary: Credit against Federal taxes up to \$1,500 for each year of Renewal Community designation for every employee (existing and new hire) who lives and works in the Renewal Community area. Tax credit for 15% of first \$10,000 in wages per employee may be taken annually through 2009. Unused credits can be carried forward for up to 20 years.

Name: *Commercial Revitalization Deduction*

Target User: Property owners who are substantially renovating an existing building or developing a new building for commercial use within the Renewal Community.

Summary: An accelerated depreciation deduction period for commercial real estate property, either new construction or substantial (more than the adjusted basis) rehabilitation. The taxpayer/property owner can choose one of two methods to use this incentive: depreciate 50% of qualified capital expenditures in the year the building is placed in service then depreciate the remaining balance over 39 years or depreciate 100% of the qualified capital expenditures over a 120-month period. This incentive is limited to \$10 million per project. The property owner must receive the allocation of the deduction from the Redevelopment Authority of the City of Milwaukee, who will serve as Milwaukee's Commercial Revitalization Authority.

Name: *Capital Gain Exclusion*

Target User: "Renewal Community Business" as defined by the Internal Revenue Code: 85% of property in Renewal Community, 50% of gross income from Renewal Community, 35% of employees live in Renewal Community.

Summary: Allows a 0% capital gains rate for Renewal Community assets held for a minimum of 5 years. An asset could include tangible property in the Renewal Community, stock, capital interests or profit interests in a Renewal Community Business acquired for cash. The rate applies to gains after December 31, 2001 and before January 1, 2015. The taxpayer is not required to sell the asset in 2015, but must determine and substantiate the gain for that period.

Name: *Increased Section 179 Deduction*

Target User: "Renewal Community Business" as defined by the Internal Revenue Code: 85% of property in Renewal Community, 50% of gross income from Renewal Community, 35% of employees live in Renewal Community - with less than \$200,000 in new equipment needs annually.

Summary: Up to an additional \$35,000 immediate depreciation expense for machinery or equipment, including computers, placed in service in that year. For example, this incentive allows a "Renewal Community Business" to take up to a total of \$59,000 "write-off" in 2002 on Form 4562.

FOR LOCAL INFORMATION, CONTACT:

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